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A concise easily digested periodic analysis based on scientific research in business fundamentals and trends . . . . Constantly measuring and reporting the basic economic factors responsible for changes in trends... Current Studies... Surveys... Forecasts

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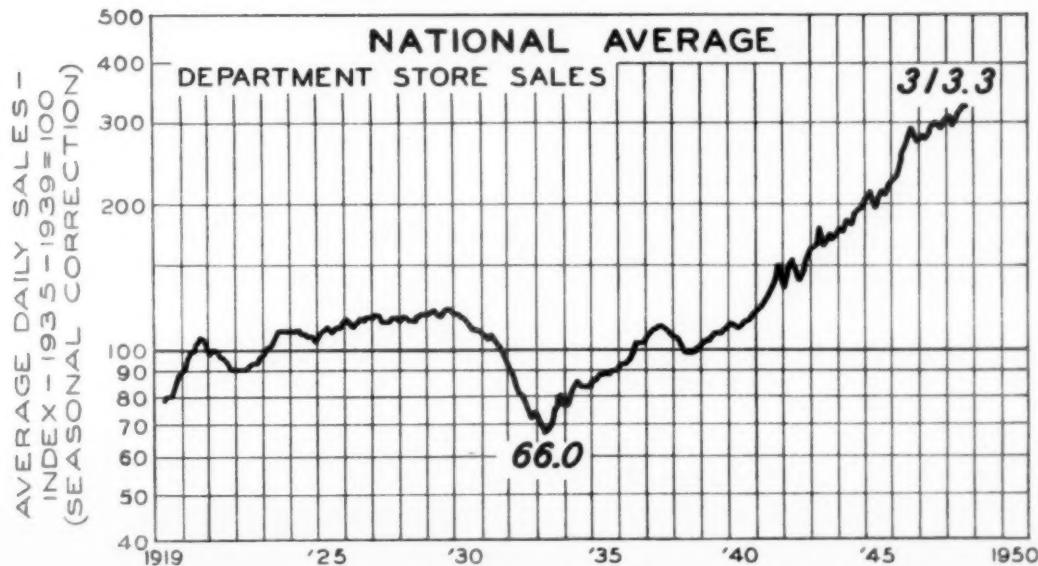
Number 50

## FLUCTUATIONS OF DEPARTMENT STORE SALES

A year or so ago it looked as if department store sales would level off to move along a high plateau for a while. So far they have not leveled off but have continued to climb. This climb has been due more to rising prices than to increasing unit sales. We believe that there will be a continued slow rise in department store sales for the next few months, and that this rise will be followed by a sideways movement at a high level, at least through the first half of next year.

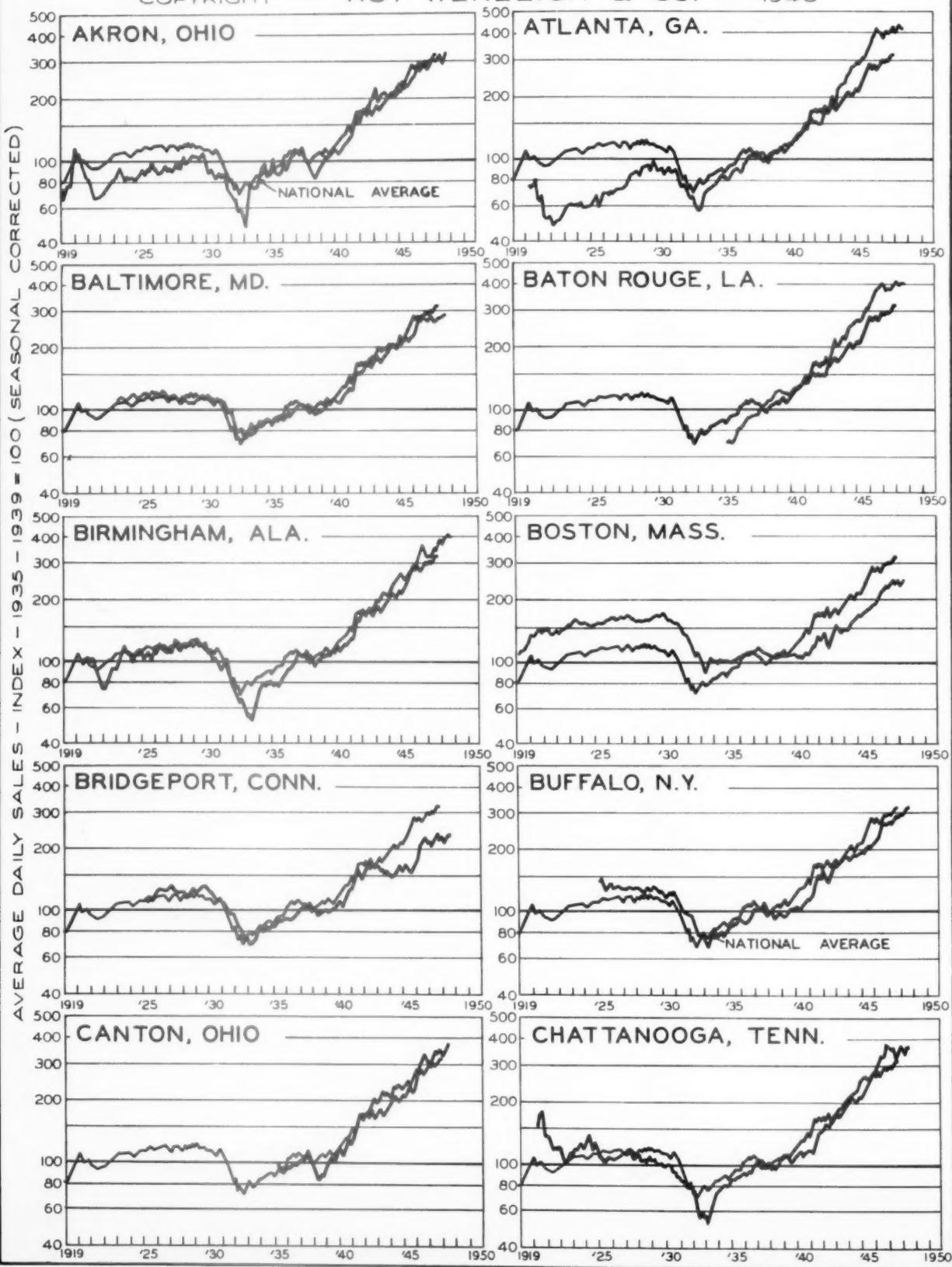
As a general rule, department store sales include about 10 per cent of the total retail business in a city. While this percentage went a trifle higher during the war due to the small sales of tires, gasoline and building materials, and the lack of new automobiles, comparisons of total retail sales with department store sales show a close relationship during most of the period covered by this study.

The charts on pages 428 through 435 are not adjusted in any way for population changes. The rapid rises in some cities were due primarily to the fact that these cities have grown rapidly in size during the last few years. The figures were plotted month by month for each city but were then smoothed to eliminate minor changes. In a few cities where only annual figures are available, the lines run very smoothly.



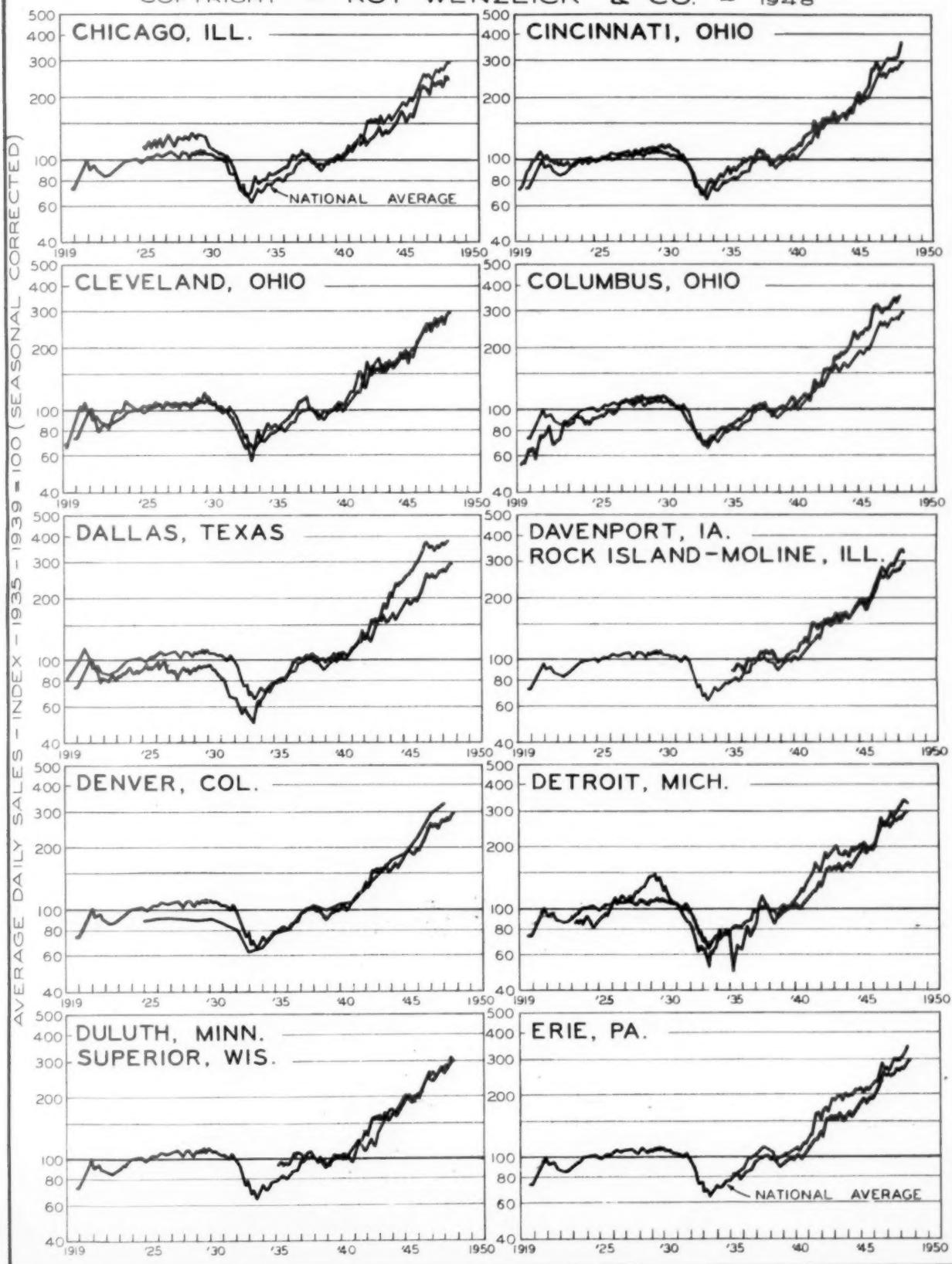
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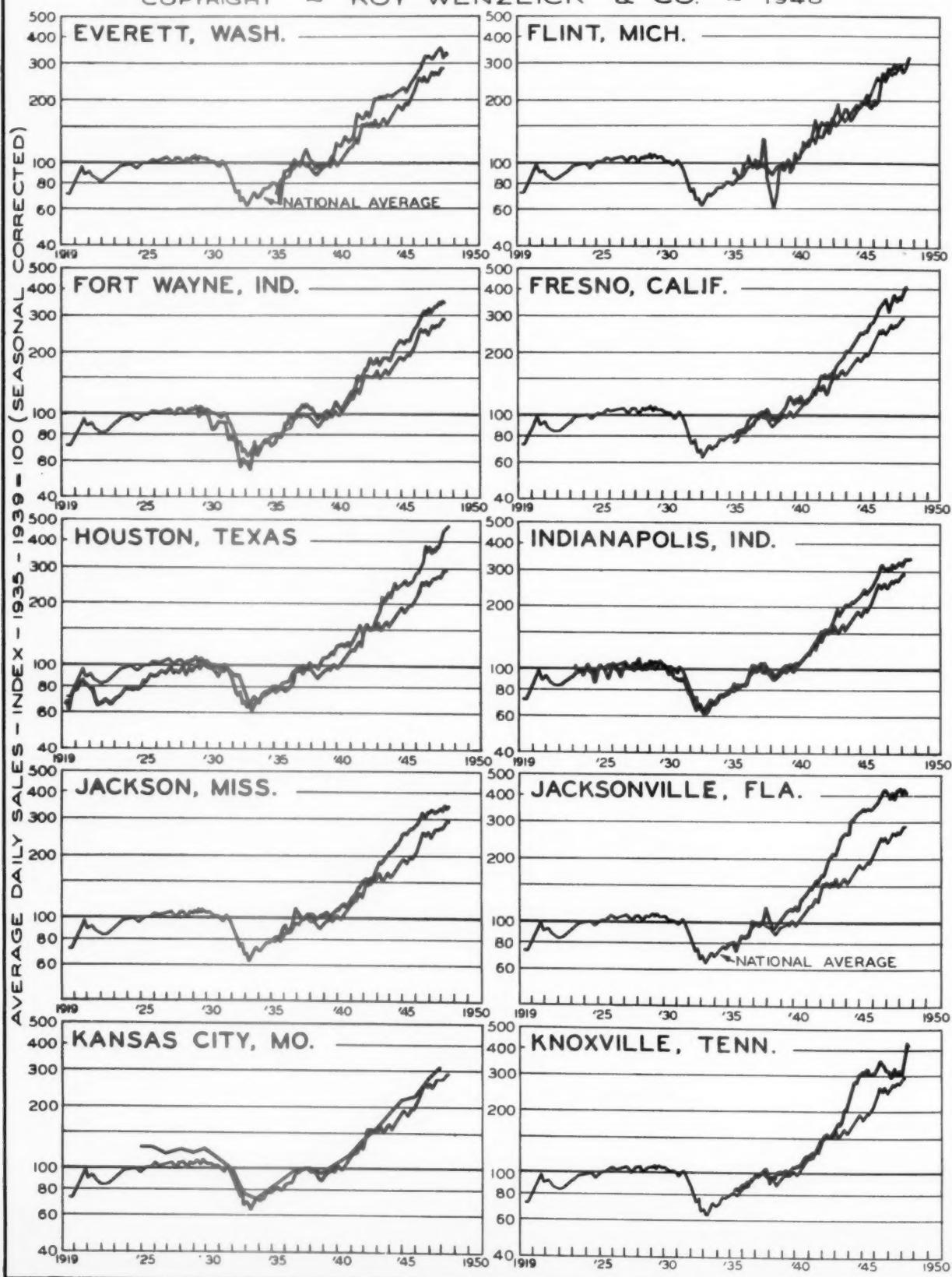
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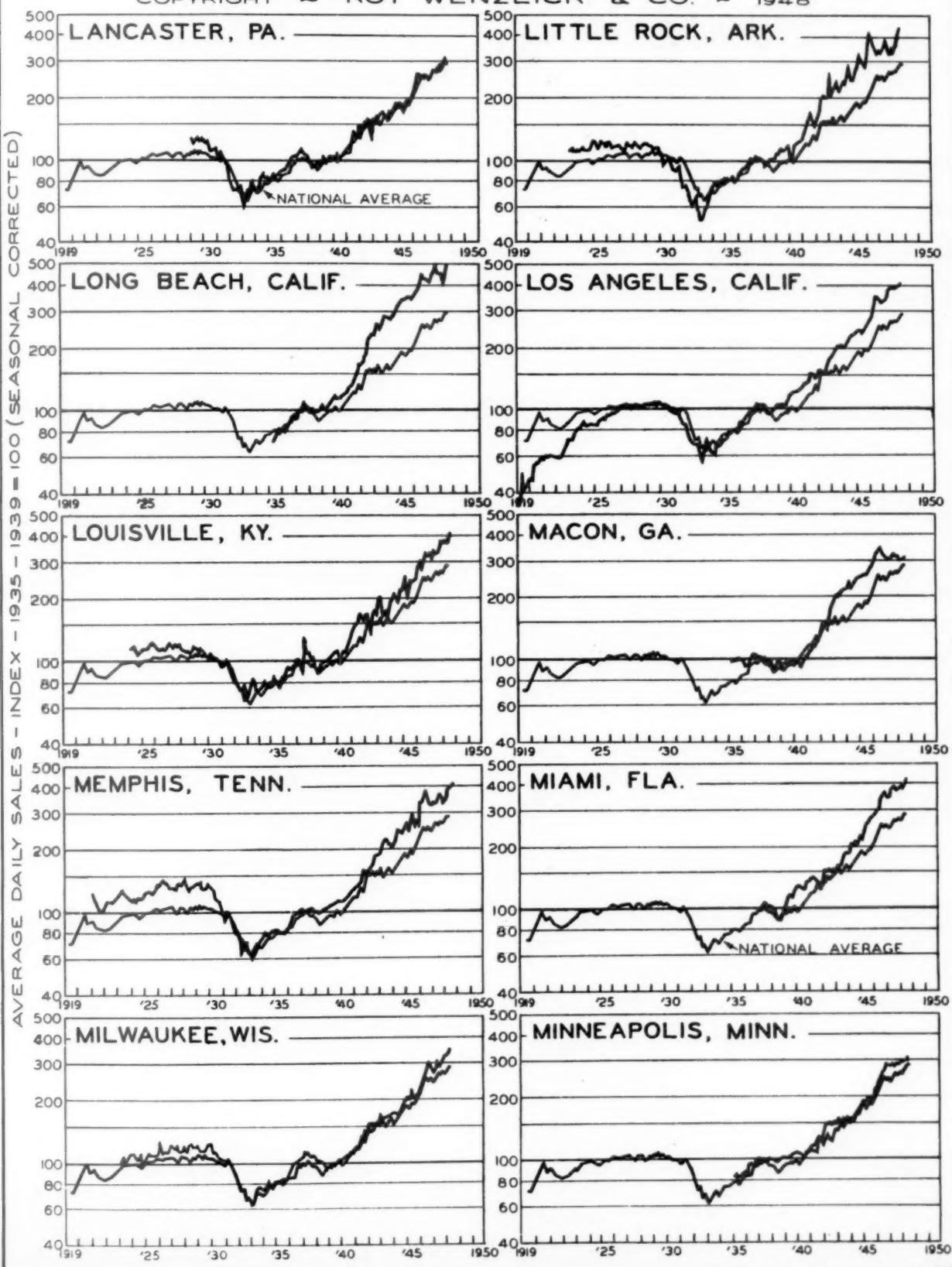
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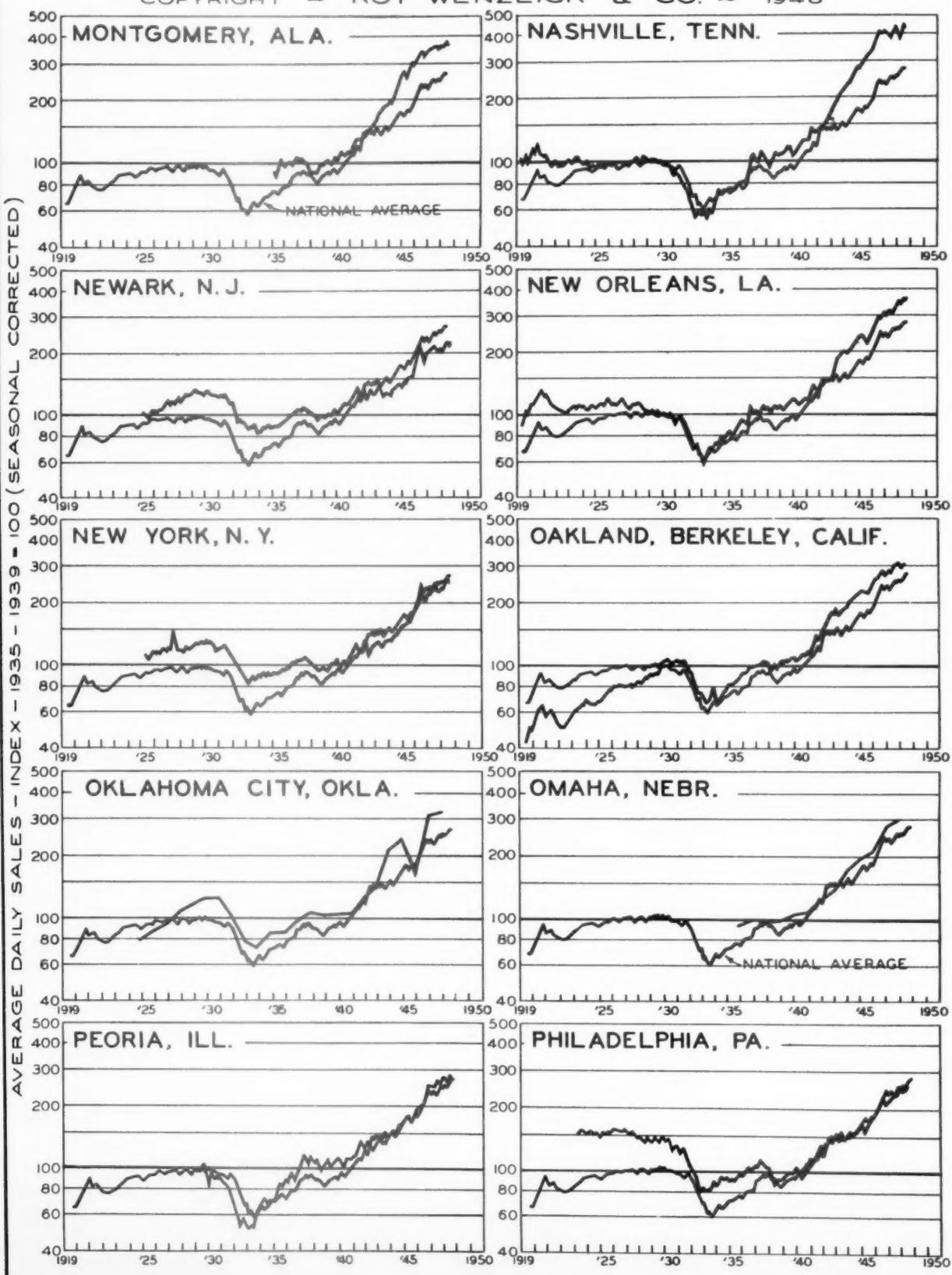
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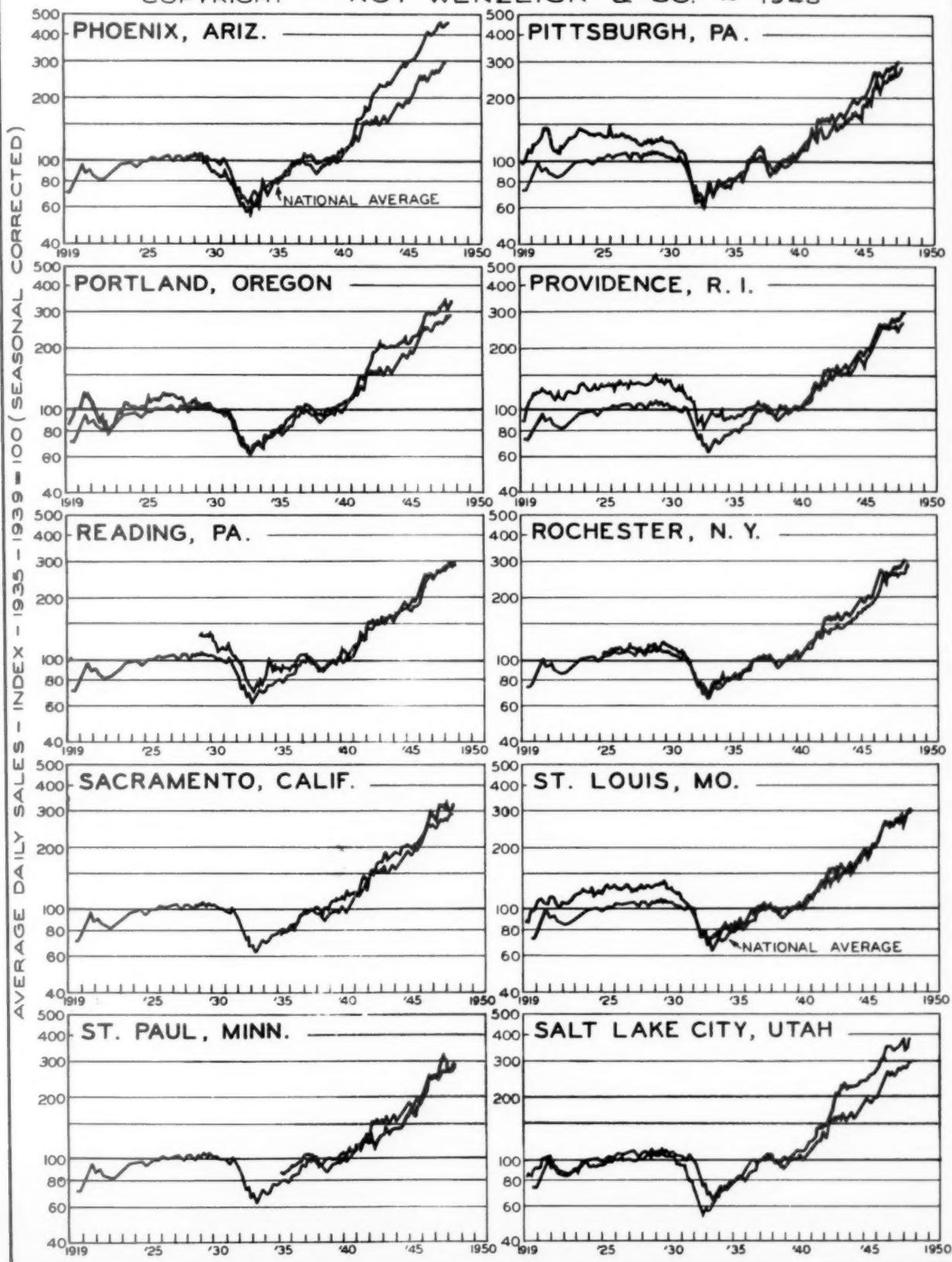
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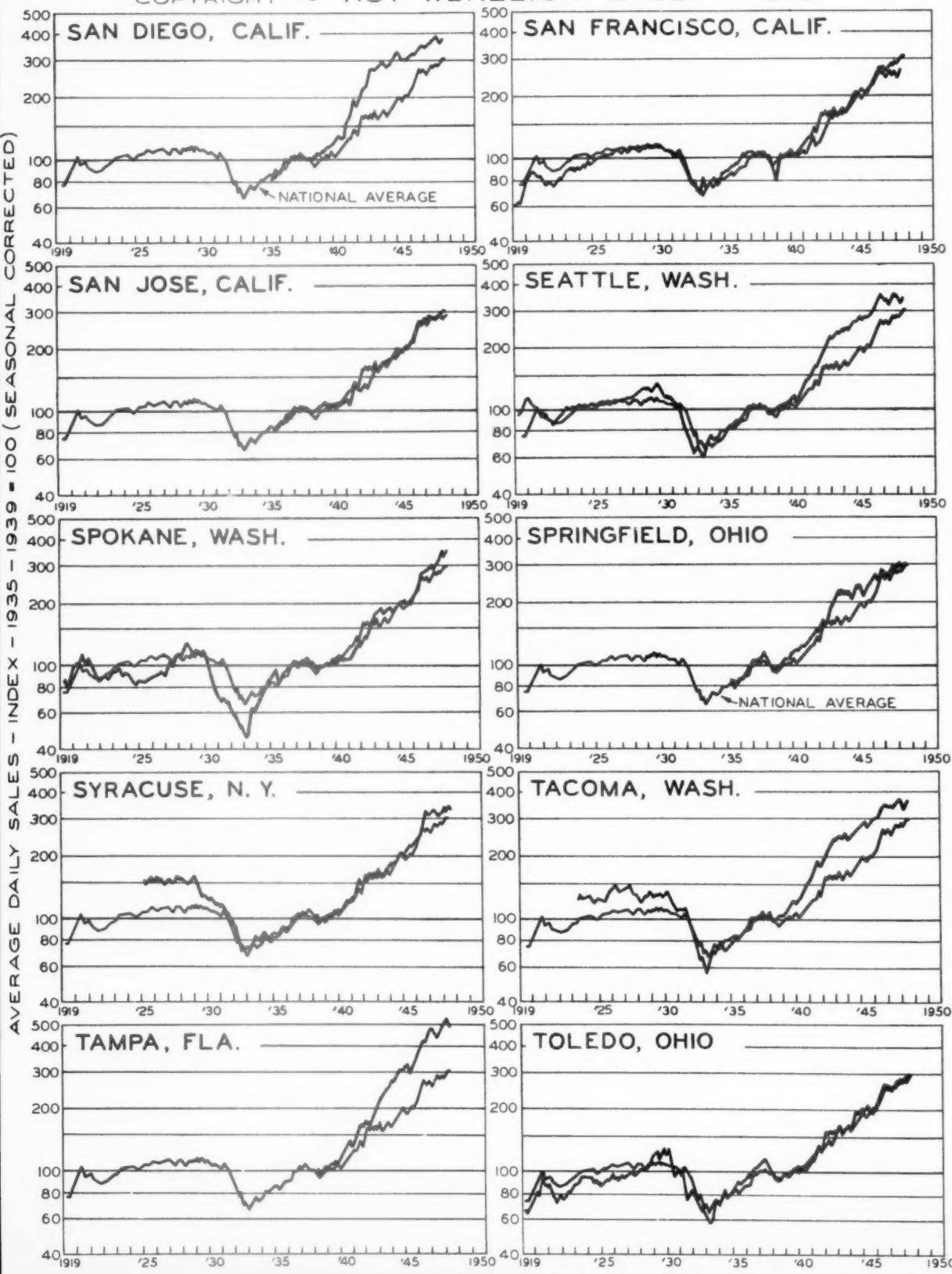
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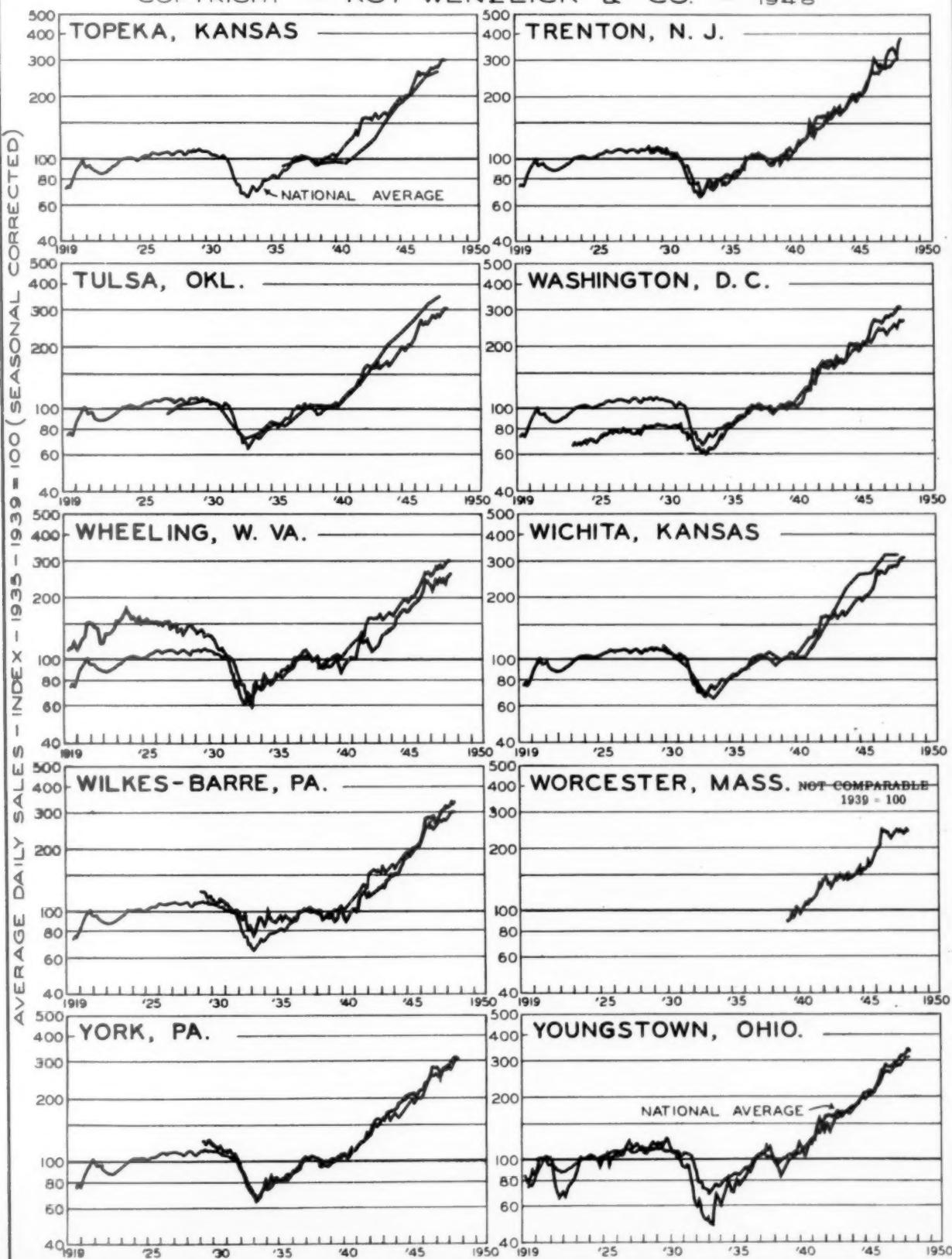
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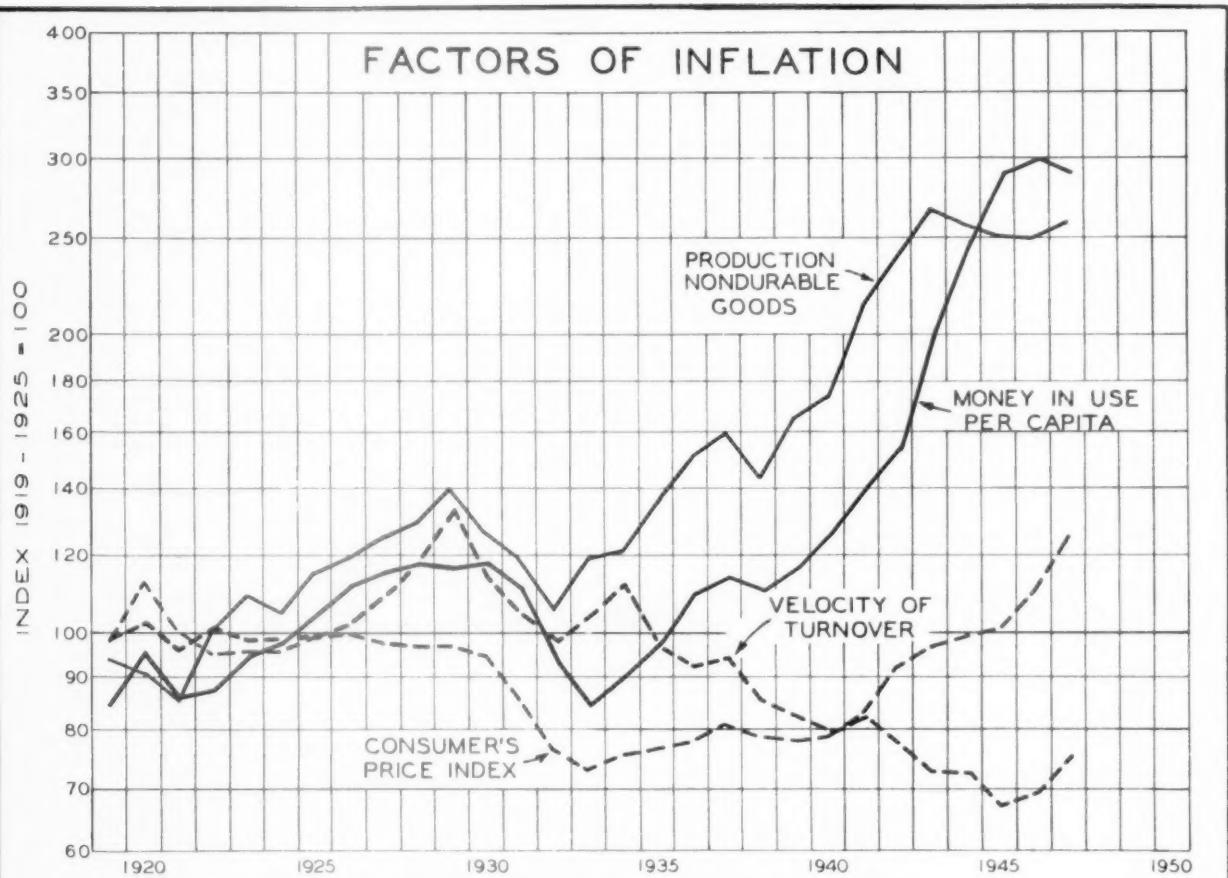
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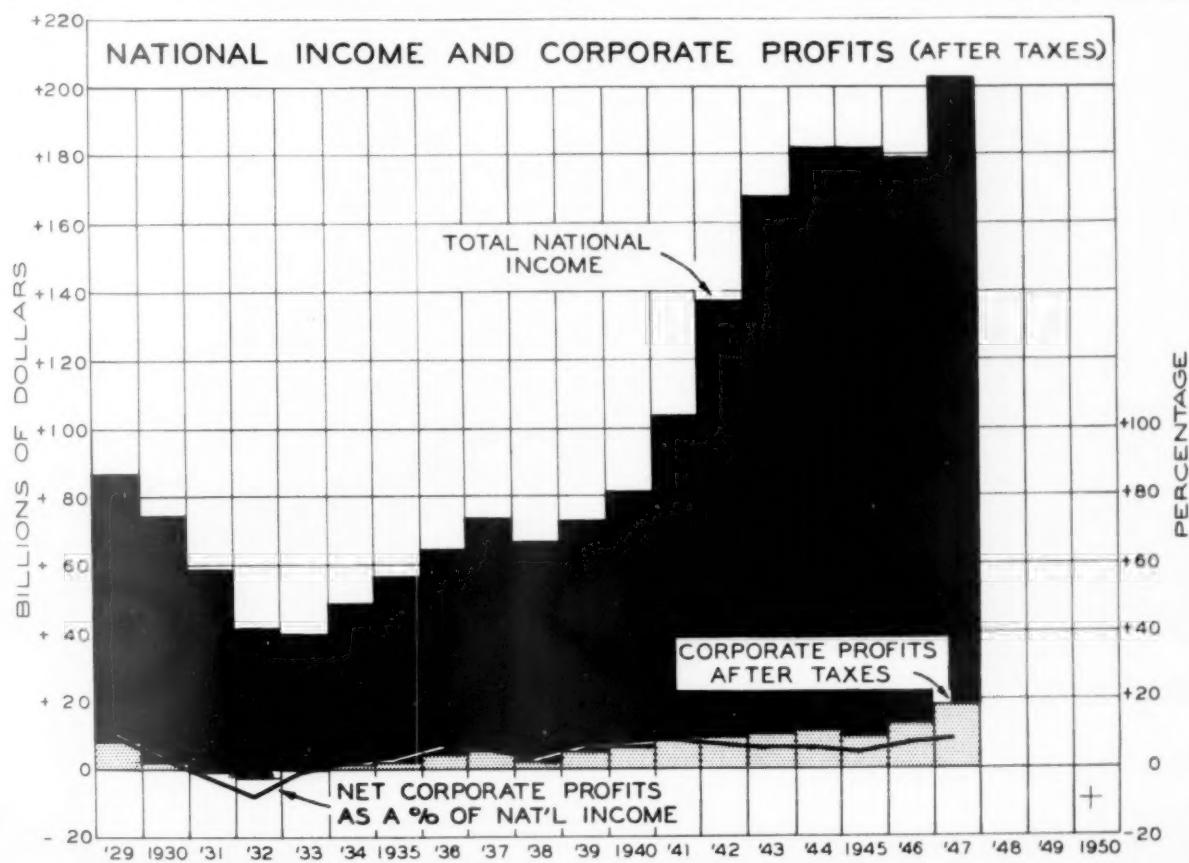
DURING the current presidential campaign we have heard various charges and countercharges regarding the responsibility for the present state of the nation. There is nothing new in this - that is the way presidential campaigns are conducted. It's all good (clean) fun as long as nobody takes any of it too seriously - and as long as the voting populace keeps its feet on the ground. However, the last few years have been unusually nerve-racking to most business people. The differences between labor and capital, largely smoothed over during the war years, have once more risen. The war of attrition waged by the government on business continues unabated. The verbal battle over prices between consumers and producers goes on and on with great heat and little light. Through all of this hullabaloo some of us may at times lose our perspective and find it difficult to concentrate on basic issues.

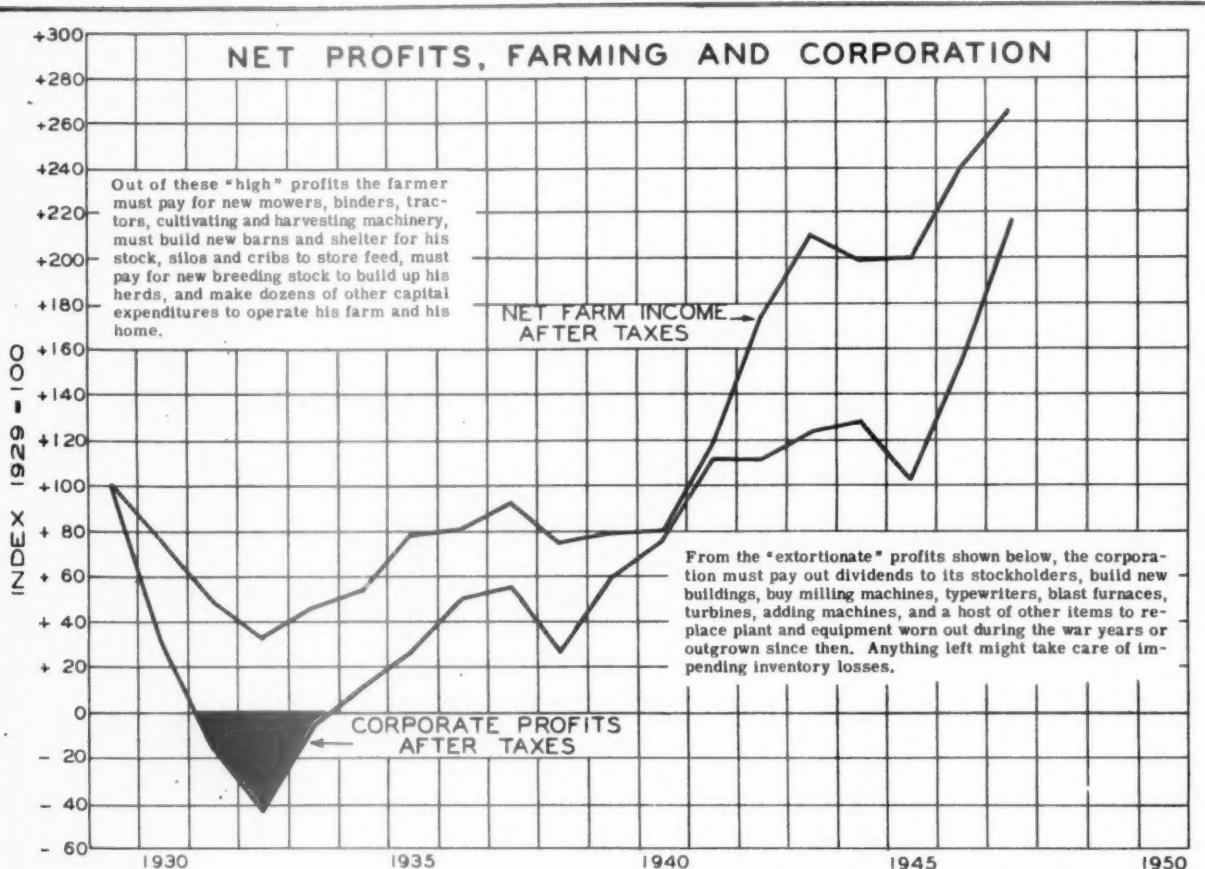
These three great controversies have a common center around which the storm rages. It is American business or, fundamentally, the system of free enterprise. The two favorite arguments constantly being dinned into the ears of the public are that business profits are too high and that business is responsible for high prices. Neither of these arguments is true. High profits like high prices are a symptom rather than a cause of inflation.

The chart at the top of the page shows 1. the chief cause of our inflation; 2. its most painful effect; 3. a threat of still more inflation; and 4. the chief reason it has not been worse. As has been stated many times, the chief cause of our inflation was the enormous expansion of credit during 1940 through 1945 to finance the war. This factor is represented by the line labeled "money in use per capita."

The most painful effect of our inflation is the increase in the cost of living - represented by the dashed black line. The threat of still more inflation is the velocity with which our tremendous supply of money turns over. This factor is depicted by the dashed red line and at present is very low, although it has picked up a bit since 1945. If it somehow reaches the speed it attained in 1929, no one can say how high prices will go. The reason inflation has not been worse is shown by the solid black line. This line charts the course of nondurable goods production (since most cost of living items are nondurable goods). It has been the steadily increasing output of our industries that has kept prices from going still higher. From 1940 to the present, money in use per capita has increased 129 per cent, the cost of living has increased 74 per cent, and nondurable production has increased 55 per cent.

Production of nondurable goods reached its peak during the middle of the war and has operated on this high plateau ever since. In order to maintain this pace, industry has had to spend billions of dollars for new plant and equipment. Profits have always played an important part in the expansion of industry - a vastly greater part than any other source of financing. For the past several years, industry has found it particularly difficult to finance any appreciable portion of its continued expansion through the sale of securities to the public. Of the \$32 billion spent for new plants and equipment during 1947, less than one-sixth came from the sale of securities. The balance came from plowing back profits, depreciation allowances, and from bank loans. Heavy reliance on bank loans is simply another way of increasing the money supply, and in this respect it is inflationary. However, the deep erosion of corporation taxes and public apathy toward common stock buying (or inability to buy due to high personal income taxes) leaves industry no other course except to stop expanding.





We believe that considering the over-all picture, business profits are not too high. We are living in an age of superlatives, and although profits are at an all-time high, so is practically everything else. In relation to national income, corporate profits after taxes are slightly below the 1929 level. In 1929 the national income was \$87.4 billion, while corporate profits after taxes reached \$8.4 billion, or 9.6 per cent of the national income. In 1947 with a national income of \$202.5 billion corporate profits after taxes were \$18.0 billion, or 8.9 per cent of the national income. This comparison is shown by the chart on the preceding page.

Still another comparison that may be made is between farm profits after taxes and corporation profits after taxes. This chart appears at the top of this page. Although farm profits have increased more rapidly than corporate profits, they, too, are a symptom rather than a cause of inflation - and have provided both the incentive and the means for the wide expansion of our agricultural production. Large profits wisely reinvested and unusually good growing weather in the last eight or ten years have very fortunately given the nation an unprecedented abundance of food.

Thus it appears that if business is to continue to supply the nation (and in some cases the world) with the standard of living to which we have grown accustomed, its profits must remain on a high plane. They may even have to go higher. It is also apparent that business profits have risen at a somewhat slower rate than national income and that wages and salaries as well as profits have been swept upward, not so much by the efforts on the part of their recipients as by the rapid expansion of our entire economy.